

# **Audit**



# **Report**

OFFICE OF THE INSPECTOR GENERAL

JOINT CROSS-SERVICE GROUP FOR  
ECONOMIC IMPACT 1995 DEFENSE BASE  
REALIGNMENT AND CLOSURE PROCESS

Report No. 95-178

April 14, 1995

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**Department of Defense**

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### **Acronyms**

BRAC  
JCSG

Base Realignment and Closure  
Joint Cross-Service Group

## **Office of the Inspector General, DoD**

**Report No. 95-178**

**Project No. 4CG-5016.06**

**April 14, 1995**

### **Joint Cross-Service Group for Economic Impact 1995 Defense Base Realignment and Closure Process**

#### **Executive Summary**

**Introduction.** We are providing this report for your information and use. This report is one in a series of reports that discusses the Joint Cross-Service Groups' implementation of the internal control plan developed by the 1995 Department of Defense Base Realignment and Closure Steering Group. The internal control plan provided a consistent set of internal controls for the Joint Cross-Service Groups for managing the data used in the identification of DoD cross-Service realignment and closure opportunities. The Deputy Secretary of Defense directed the Inspector General, DoD, to review the adequacy and implementation of the internal control plan over this process. This report discusses implementation of the internal control plan by the Joint Cross-Service Group for Economic Impact.

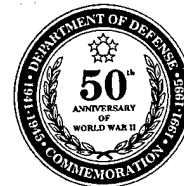
**Audit Objectives.** The overall audit objective was to assess the adequacy of the 1995 Department of Defense Base Realignment and Closure Steering Group internal control plan. The specific objective of this audit was to determine whether the Joint Cross-Service Group for Economic Impact adequately implemented the Steering Group internal control plan. A summary report will discuss the overall audit objective.

**Audit Results.** The Joint Cross-Service Group for Economic Impact implementation of the internal control plan was generally effective. We identified nonmaterial deficiencies to management, and management took the appropriate action to correct the deficiencies.

**Management Comments.** Because the report contains no findings or recommendations, management comments were not required. However, the Deputy Assistant Secretary of Defense (Installations) provided comments and concurred with the auditor's description of the process used by the Joint Cross-Service Group for Economic Impact to develop economic impact analysis methodology.



**INSPECTOR GENERAL**  
DEPARTMENT OF DEFENSE  
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Report No. 95-178

April 14, 1995

**MEMORANDUM FOR DEPUTY ASSISTANT SECRETARY OF DEFENSE  
(INSTALLATIONS)**

**SUBJECT: Audit of Joint Cross-Service Group for Economic Impact 1995 Defense  
Base Realignment and Closure Process (Project No. 4CG-5016.06)**

**Introduction**

We are providing this audit report for your information and use. This report is one in a series of reports that discusses the Joint Cross-Service Groups' (JCSG) implementation of the internal control plan developed by the 1995 Department of Defense Base Realignment and Closure (BRAC) Steering Group (the Steering Group). The internal control plan provided a consistent set of internal controls for the JCSGs for managing the data used in the identification of DoD cross-Service realignment and closure opportunities. The Deputy Secretary of Defense directed the Inspector General, DoD, to review the adequacy and implementation of the internal control plan over this process. This report discusses implementation of the internal control plan by the JCSG for Economic Impact.

**Audit Results**

The JCSG for Economic Impact implementation of the internal control plan was generally effective. We identified the following nonmaterial deficiencies to management, and management took the appropriate action to correct the deficiencies:

- errors and inconsistencies in data consolidation,
- errors in calculations and data entry into the computer analysis programs, and
- inadequate documentation to support the information or analysis performed by the JCSG for Economic Impact.

**Audit Objectives**

The overall audit objective was to assess the adequacy of the Steering Group's internal control plan for managing the data used in the identification of DoD cross-Service realignment and closure opportunities. The specific objective of this audit was to determine whether the JCSG for Economic Impact adequately implemented the internal control plan. A summary report will discuss the overall audit objective.

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## **Scope and Methodology**

We reviewed the JCSG for Economic Impact process for collecting and analyzing 1995 BRAC data for Economic Impact. We did not review the data collection process of the Military Departments.

We attended JCSG for Economic Impact meetings and reviewed the formal minutes and briefing charts of the meetings.

We verified the accuracy of the JCSG for Economic Impact consolidation of data submitted by the Military Departments. We also verified information from authorized Government sources.

We reviewed and verified the data and calculations generated for the economic impact report.

We reviewed the process for receiving and providing information to the Military Departments to evaluate cumulative economic impact.

**Statistical Sampling Methodology.** We applied a statistical test for quality assurance to validate the 101,745 cells of information contained in the economic impact data base. The sampling plan was developed by the Quantitative Methods Division, Audit Planning and Technical Support Directorate, Office of the Assistant Inspector General for Auditing, DoD. The details of the statistical sampling plan and results are in Enclosure 1.

**Audit Standards and Locations.** This program audit was conducted from January 1994 through March 1995. The audit was conducted in accordance with auditing standards issued by the Comptroller General of the United States as implemented by the Inspector General, DoD. Accordingly, we included tests of internal controls considered necessary. We conducted the audit at various DoD organizations and at the Logistics Management Institute. See Enclosure 3 for a complete list of the organizations visited or contacted.

**Use of Computer-Processed Data.** We developed a statistical sample to perform a quality assurance test of the 1995 BRAC Economic Impact Data Base. Based on our statistical test of quality assurance, the Economic Impact Data Base as a whole is considered acceptable at the 95-percent confidence level.

## **Internal Control Plan**

On April 13, 1994, the Steering Group issued the internal control plan for the JCSGs to use in the 1995 BRAC process. The objective of the internal control plan was to ensure the accuracy, completeness, and integrity of the information upon which the Secretary of Defense BRAC recommendations will be based.

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The internal control plan established two principal mechanisms to control the process: organization and documentation.

**Organizational Controls in the Internal Control Plan.** Organizational controls consisted of the establishment of three organizations that were separated by distinct functional boundaries and levels of decisionmaking authorities. An Inspector General, DoD, summary report will discuss the implementation of organizational controls.

**Documentation Controls in the Internal Control Plan.** Documentation controls were divided into the following control elements: data information and collection, certification, record keeping, oral briefing, outside studies, technical experts, and access to records.

The internal control plan provided a consistent set of management controls for all JCSGs and ensured the accuracy of the data collection and analysis process. In addition, the internal control plan incorporated the certification procedures set forth in Public Law 101-510, "Defense Base Realignment and Closure Act of 1990," November 5, 1990, as amended, and policy guidance in the Deputy Secretary of Defense memorandum, "1995 Base Realignment and Closures," January 7, 1994.

## **Prior Audits and Other Reviews**

No previous audit coverage of the JCSG for Economic Impact has occurred.

## **Audit Background**

The January 7, 1994, Deputy Secretary of Defense memorandum established policy, procedures, authorities, and responsibilities for selecting bases for realignment or closure under Public Law 101-510, as amended. To oversee the entire 1995 BRAC process and to enhance opportunities for consideration of cross-Service tradeoffs and multi-Service use of the remaining infrastructure, the memorandum established a Review Group, a Steering Group, and six JCSGs. In addition, the Deputy Secretary of Defense directed the Inspector General, DoD, to review the activities of the JCSGs to ensure that such activities comply with the requirements of the internal control plan.

**Review Group Authorities.** The Review Group oversaw the entire 1995 BRAC process. The Review Group was chaired by the Deputy Secretary of Defense and was composed of senior representatives from the Military Departments, the Joint Staff, and other DoD Components and the chair from the Steering Group and each of the JCSGs. The Review Group authorities included:

- reviewing 1995 BRAC analysis policies and procedures,
- reviewing 1995 BRAC excess capacity analyses,

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- establishing 1995 BRAC alternatives and numerical excess capacity-reduction targets for consideration by the DoD Components, and
  - making recommendations to the Secretary of Defense.

**Steering Group Authorities.** The Steering Group assisted the Review Group in exercising its authorities and reviewed DoD Component supplementary 1995 BRAC guidance. The Steering Group was chaired by the Assistant Secretary of Defense (Economic Security) and was composed of representatives from the Military Departments, the JCSGs, and various other DoD Components.

**JCSGs Authorities.** The JCSGs were established in six areas that were determined to have significant potential for cross-Service impact in the 1995 BRAC process. The six JCSGs are:

- Depot Maintenance,
- Test and Evaluation,
- Laboratories,
- Military Treatment Facilities (including Graduate Medical Education),
- Undergraduate Pilot Training, and
- Economic Impact.

The JCSGs are chaired by senior DoD officials, with members from each of the Military Departments and other DoD offices, as considered appropriate by the chair or chairs of each group.

**JCSG Responsibilities.** The JCSGs (excluding the JCSG for Economic Impact) were tasked to perform the following functions.

- Establish guidelines, standards, assumptions, measures of merit, data elements, and milestone schedules for cross-Service analysis of the common-support area.
- Perform an excess-capacity analyses.
- Develop BRAC alternatives and numerical excess-capacity reduction targets for Military Department consideration.
- Analyze cross-Service tradeoffs.

The JCSG for Economic Impact had the following unique responsibilities.

- Establish the guidelines for measuring economic impact and, if practicable, cumulative economic impact.

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- Analyze DoD Component recommendations under those guidelines.

- Develop a process for analyzing alternative BRAC necessitated by cumulative economic impact considerations, if necessary.

**JCSG Process.** To fulfill its responsibilities, JCSG for Economic Impact performed the following tasks:

- developed common measures and approaches for analyzing economic impact and cumulative economic impact;

- developed a computer-based system to facilitate the analysis of economic impact, including cumulative economic impact;

- analyzed DoD Component recommendations based on the approved measures and approaches; and

- developed a process for analyzing alternative BRAC necessitated by cumulative economic impact considerations.

## **Discussion**

The JCSG for Economic Impact was chaired by the Deputy Assistant Secretary of Defense (Installations) and included representatives from the Military Departments and other DoD offices.

The JCSG for Economic Impact defined two categories of information needed to satisfy the economic impact final selection criteria: measures of economic impact and historic economic information. The measures of economic impact consisted of the total potential job changes in the economic area and total potential job changes as a percent of total employment in the economic area. Historic economic information consisted of the level and rate of growth of employment, the level and rate of growth of personal income per capita, and unemployment rates.

Logistics Management Institute, a federally funded research and development center, was tasked to develop and provide support for the 1995 BRAC economic impact data base. The economic impact data base was designed as a tool to assist the Military Departments, Defense agencies, and the Office of the Secretary of Defense to apply the economic impact criteria.

The economic impact data base contained the following information:

- a list of DoD installations,
- the economic area to which each installation was assigned,



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- factors (multipliers) to estimate potential indirect job changes, and
  - capability to calculate the measures for economic and cumulative economic impact.

The economic impact data base also contained historic economic data, including:

- economic area civilian employment (1984 through 1993);
- annualized change in economic area civilian employment, absolute and percent (1984 through 1993);
- economic area per capita personal income (1984 through 1992);
- annualized change in economic area per capita personal income, absolute and percent (1984 through 1992); and
- economic area unemployment rates (1984 through 1993).

The data base produced a report that contained the information needed to analyze the economic impact of a particular recommendation for an installation.

The DoD Components were required to consider the effects of cumulative economic impact of prior BRAC recommendations. The JCSG for Economic Impact provided a list of economic areas with multiple BRAC actions to the DoD Components.

We reviewed the JCSG for Economic Impact implementation of the internal control plan during the development and analysis of economic impact information. A discussion of the results of our review of the specific control areas follows.

**Data Information and Collection.** The JCSG for Economic Impact used the definition of economic area as the metropolitan statistical area, defined by the Office of Management and Budget; the county in which the installation was located if in a nonmetropolitan area; or, in some cases, a multicounty area. The Military Departments provided a list of military installations and the installations' assigned economic area to the JCSG for Economic Impact. The JCSG for Economic Impact reviewed and approved each assignment. The DoD Components were responsible for providing direct job change information associated with BRAC recommendations. The Deputy Assistant Secretary of Defense (Installations) provided multipliers to calculate potential indirect job changes and historical economic data from authoritative sources such as the Bureaus of Labor Statistics, Economic Analysis, and the Census. The JCSG for Economic Impact developed the calculations for the measures of economic impact and cumulative economic impact.

The Bureaus of Labor Statistics and Economic Analysis provided labor and per capita income figures for the economic areas. The Bureau of the Census provided population figures by economic area.

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The JCSG for Economic Impact effectively followed the internal control plan. Formal information requests were used to obtain information from the DoD Components. The JCSG for Economic Impact required the DoD Components to collect information based on the DoD Components' internal control procedures. We compared the current list of military installations and economic areas with the list from prior BRAC Commissions and determined that the JCSG for Economic Impact adequately documented the reason for any changes. We obtained copies of official publications for the Bureaus of Labor Statistics, Economic Analysis, and the Census and compared the information against the data in the economic impact data base. The data in the economic impact data base were adequately supported.

**Data Certification.** The DoD Components provided certified data. The JCSG for Economic Impact requested the DoD Components to verify the accuracy of information entered into the economic impact data base. The DoD Components certified that the information was correct as shown in the data base. Subsequent changes to the economic impact data base were provided in writing by the DoD Components' representatives.

Information from the Bureaus of Labor Statistics, Economic Analysis, and the Census consisted of computer files and official publications. The Logistics Management Institute incorporated processing controls in the economic impact data base computer model to assure the accuracy of the data that were electronically transferred from these Government agencies.

We performed a statistical quality assurance test to verify that all information in the economic impact data base was adequately supported. We compared our sample either to the documentation provided by the DoD Components or to the official publications of the Bureaus of Labor Statistics, Economic Analysis, and the Census. Our statistical review provided us reasonable assurance that the JCSG for Economic Impact could rely on the information in the economic impact data base when calculating economic impact and cumulative economic impact. The statistical sampling plan is discussed in Enclosure 1.

We also verified that the economic impact report contained the correct information from the economic impact data base and that the computations displayed in the report were correct.

**Record Keeping.** The JCSG for Economic Impact prepared minutes for all meetings and the minutes were formally accepted in subsequent meetings.

The Logistics Management Institute developed a user guide for the economic impact data base. The guide documented the contents of the data base, including the source of data fields, the method of calculating information, and the format of reports. The Logistics Management Institute retained all information and documentation used in developing the data base.

We attended the JCSG for Economic Impact meetings and reviewed the minutes, charts, and formal documentation of the meetings. We also reviewed the documentation to support the economic impact data base. We verbally

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notified management of inadequate documentation to support the analysis process, information, or economic impact data base. We verified that management corrected the deficiencies.

**Oral Briefing.** In May 1994, the JCSG for Economic Impact sponsored an independent review of its plan for 1995 BRAC economic analysis. The independent review consisted of six experts from the Government, academia, and the private sector. The experts evaluated the measures of economic impact and the definition of economic impact areas. In addition, the Bureau of Economic Analysis of the Department of Commerce reviewed the methodology for estimating the number of civilian jobs indirectly affected by BRAC actions or recommendations. The JCSG for Economic Impact prepared detailed minutes of the meeting. The minutes were approved by the experts before the close of the meeting. We attended the meeting and reviewed the minutes, charts, and formal documentation. The minutes and documentation were adequate.

**Outside Studies.** This group did not have any outside studies performed.

**Technical Experts.** The Deputy Assistant Secretary of Defense (Installations) retained the Logistics Management Institute to assist the JCSG for Economic Impact in developing methods for analyzing economic impact, establishing common measures and approaches, and developing a computer-based system to facilitate the analysis. All information provided by the Logistics Management Institute was in writing and was summarized in the economic impact data base guide.

**Access to Records.** Each DoD Component maintained a separate copy of the economic impact data base with information on the number of personnel that its respective installations would gain or lose from 1995 BRAC recommendations. The official economic impact data base was located on one computer in the Deputy Assistant Secretary of Defense (Installations) office. The computer was secured by password. The password was known only by one individual on the JCSG for Economic Impact. Information for each Military Department was transferred electronically to the official economic impact data base.

We accompanied the personnel from the office of the Deputy Assistant Secretary of Defense (Installations) to each Military Department to obtain a computer disk and documentation of the data for the Military Departments' recommendations. We tested the data transferred to the computer disk to determine that the transfer was successful. We hand-carried the disk to the Deputy Assistant Secretary of Defense (Installations) office and observed the transfer of the data from the computer disk to the JCSG for Economic Impact computer. We again tested the information to verify that the data were successfully transferred.

JCSG for Economic Impact meetings were conducted in a secure working area in the Deputy Assistant Secretary of Defense (Installations) room in the Pentagon. All data and documents were treated as sensitive "close hold" information with access restricted to authorized personnel.

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## Management Comments

We provided a draft of this report to management on March 28, 1995. Because this report contains no findings or recommendations, management comments were not required. However, the Deputy Assistant Secretary of Defense (Installations) provided comments and concurred with the auditor's description of the process used by the JCSG for Economic Impact to develop economic impact analysis methodology. For the full text of management comments, see Enclosure 2.

We appreciate the courtesies extended to the audit staff. If you have any questions on this report, please contact Mr. Wayne K. Million, Audit Program Director, at (703) 604-9312 (DSN 664-9312), or Mr. John M. Delaware, Audit Project Manager, at (703) 604-9314 (DSN 664-9314). See Enclosure 4 for the report distribution. The audit team members are listed inside the back cover.

*David K. Steensma*

David K. Steensma  
Deputy Assistant Inspector General  
for Auditing

Enclosures

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## Statistical Sampling Documentation

### Sampling Plan

**Sampling Purpose.** The purpose of the statistical sampling plan was to perform a quality assurance test on the cross-Service economic impact data base.

**Universe Represented.** The audit universe was defined as the economic impact data base that contained 95 data fields for 1,071 installations. The universe contained a total of 101,745 entries.

**Sampling Design.** A simple random sample of 409 entries was drawn from the audit universe.

### Sampling Results

Based on our statistical test of quality assurance, the 101,745 cross-Service economic analysis data entries as a whole are considered acceptable at the 95-percent confidence level.

Characteristics of the quality assurance test that were used are that at least 95 percent of all universes of similar size that contain approximately 5 percent errors or more (rejectable quality level) will be rejected, and at least 95 percent of all universes that contain approximately 2 percent errors or fewer (acceptable quality level) will be accepted.

# Deputy Assistant Secretary of Defense (Installations) Comments



ECONOMIC SECURITY

OFFICE OF THE ASSISTANT SECRETARY OF DEFENSE  
3300 DEFENSE PENTAGON  
WASHINGTON, DC 20301-3300



06 APR 1995

MEMORANDUM FOR INSPECTOR GENERAL, DEPARTMENT OF DEFENSE

SUBJECT: Draft Audit Report on Joint Cross-Service Group for  
Economic Impact, 1995 Base Realignment and Closure  
Process (Project No. 4CG-5016.06)

I have reviewed the draft report and concur in the auditor's description of the process used by the Joint Cross-Service Group (JCSG) for Economic Impact to develop economic impact analysis methodology for use by the Department of Defense during the 1995 BRAC analyses.

The Inspector General, DoD, has been a key part of the Department's BRAC process by providing advice and review of organizational and internal management controls for JCSG activities. The involvement of the Inspector General enhanced the process by helping to ensure the accuracy, completeness, and integrity of the information used as a basis for development of economic impact analysis.

Robert E. Bayer  
Deputy Assistant Secretary of Defense  
Installations



Enclosure 2

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## **Organizations Visited or Contacted**

### **Office of the Secretary of Defense**

Assistant Secretary of Defense (Economic Security), Washington, DC  
Deputy Assistant Secretary of Defense (Installations), Washington, DC  
Director, Base Closure and Utilization, Washington, DC

### **Department of the Army**

Secretary of the Army  
The Army Basing Study, Washington, DC

### **Department of the Navy**

Secretary of the Navy  
Base Structure Analysis Team, Alexandria, VA

### **Department of the Air Force**

Secretary of the Air Force  
Base Closure Working Group, Washington, DC

### **Non-Government Organization**

Logistics Management Institute, McLean, VA

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